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20 April 1999

To:

Mr. Hocine Medili, Director

Field Administration and Logistics Division Department of Peace Keeping Operations

From:

Esther Stern, Director

Audit and Management Consulting Division, OIOS

Subject:

Summary report on audit of UNOHCI operations undertaken by OIOS Resident

Auditor during the period June 1997 - July 1998. (AP1998/17)

1. I am pleased to present the subject report which was prepared by Mr. Raja Arumugham and covers his assignment as Resident Auditor in the United Nations Office of the Humanitarian Coordinator for Iraq (UNOHCI) during the period June 1997- July 1998.

- 2. When commenting on the recommendations, please refer to the recommendation numbers concerned in order to facilitate monitoring of their implementation status. Please indicate a time schedule for the implementation of each accepted recommendation.
- I would appreciate receiving your reply by 31 May 1999. 3.

copy to:

Mr. B. Sevan

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UNITED NATIONS OFFICE OF INTERNAL OVERSIGHT SERVICES AUDIT AND MANAGEMENT CONSULTING DIVISION

Audit Assignment No: AP1998/17

20 April 1999

Summary report on audit of UNOHCI operations undertaken by OIOS Resident Auditor during the period June 1997- July 1998.

Resident Auditor

Raja P.Arumugham

Summary report on audit of UNOHCI operations Undertaken by OIOS Resident Auditor During the period June 1997 to July 1998.

EXECUTIVE SUMMARY

The OIOS Resident Auditor, during the period June 1997 to July 1998, undertook audits in the areas of financial management, procurement, contract management, personnel management, transport and communications in the United Nations Office of the Humanitarian Co-ordinator for Iraq (UNOHCI). As a result of these audits, the Resident Auditor issued 19 audit observations to the Humanitarian Coordinator and Chief Administrative Officer of UNOHCI. Of the findings and recommendations included in the audit observations, the following require follow-up action:

- Due to inadequate coordination between the Department of Humanitarian Affairs and UNOHCI, computers and vehicles in excess of the mission's requirements were procured. 100 computers have been transferred to various other organizational units. However, at the time of the audit, the financial adjustments for some transfers were still outstanding. In addition, action needed to be taken to dispose of excessive printers and vehicles.
- In addition to its share of the costs of the UN worldwide telecommunications network, UNOHCI was also charged an additional \$237,000 based on the volume of voice and fax traffic. There does not appear to be any clear and generally acceptable rationale for this additional charge. In addition, a digital communication line connecting UNLB/Brindisi and UNOG/Geneva leased at a cost of \$30,000 per six months was charged to UNOHCI although it had no direct operational need for the line. This cost should have been apportioned to the users of the line.
- The Resident Auditor issued an observation on irregularities in the purchase of office furniture. A Board of Inquiry, established by UNOHCI to review the irregularities, has submitted its report, but it is not clear if the required follow-up action on the report has been taken.
- There were delays in replacing internationally recruited General Service staff with local staff. The annual cost saving per post is estimated at \$67,000.

The Mission administration has completed or has initiated action in respect of the other audit findings and recommendations raised by the Resident Auditor.

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I. INTRODUCTION

General

1. The OIOS Resident Auditor in Baghdad undertakes audits of selected activities of the United Nations Office of the Humanitarian Co-ordinator for Iraq (UNOHCI) and also provides advice on management control issues to the Humanitarian Co-ordinator and Administrative Officer (CAO) of the mission.

Audit objectives

2. The audits undertaken by the Resident Auditor (Auditor) are generally designed to determine if there are adequate internal controls to ensure: (a) compliance with relevant regulations, rules and procedures governing UNOHCI operations; (b) the adequate safeguarding of the Organization's assets; and (c) the economical and efficient use of resources for the approved purpose of the mission.

Scope of Audit

3. During the period June 1997 to July 1998, the Auditor undertook audits in the areas of financial management, procurement, contract management, personnel management, transport and communications. These audits essentially covered expenditures incurred at the field level. However, in some instances, the auditor also reviewed assets and services procured and paid for by UN Headquarters.

Resident Auditor's Observations and Management Responses

- 4. As a result of the audits undertaken, the Auditor issued 19 Audit Observations to the Humanitarian Co-ordinator and the CAO of the mission.
- 5. Generally audit findings and recommendations concerning local operations within the purview of these two officers were promptly clarified or, where necessary, appropriate action taken.

Purpose of this Report

6. The purpose of this report is to: (a) identify various issues requiring response, action or follow-up at the Headquarters; and (b) provide a summary of some audit findings and recommendations, which were settled at the field level, but could have implications in terms of lessons learnt for other missions.

II. AUDIT FINDINGS AND RECOMMENDATIONS - ACTION REQUIRED AT HEADQUARTERS

A. Procurement - Excess purchase of computers and vehicles

Computers

- In February 1998, UNOHCI requisitioned and purchased 25 computers from a vendor in Kuwait at a cost of \$34,900. Meanwhile, based on the estimated number of staff projected for the mission (188 international and 163 national staff), DHA, which was responsible for the Iraq programme at that time, purchased 268 computers, monitors and printers at a total cost of US\$876,413 for delivery to the mission. Apparently there was no exchange of information between UNOHCI and the UN Headquarters on these procurements and the requirements of the mission.
- In June 1997, after a review of these purchases, the Auditor pointed out to the CAO of the mission that:
 - the computers purchased by DHA cost more than those procured in Kuwait by about 134 per cent. The higher price was partly due to the (i) higher level specifications;
 - DHA did not consult UNOHCI as to its needs and was apparently unaware of computers already available in or purchased by the mission: and (ii)
 - some of the computers delivered from Headquarters were found to be (iii) faulty.
 - As a result of the review, the Auditor recommended that faulty equipment received from Headquarters be returned to the vendor for replacement or repair, and excess computers be transferred to other UN field missions. In his reply dated 22 July 1997, the CAO stated that five faulty computers, still under warranty, were returned to New York for repairs or replacements and that action had been taken in respect of 100 computers found to be in excess of local needs, as follows:
 - 34 computers transferred to UNMIBH at a cost of \$92,805. The amount has been received and credited to UNOHCI account; (i)
 - 50 computers transferred to UNOMIL at a cost of \$136,478, but the payment had yet to be credited to UNOHCI; and (ii)
 - 16 computers returned to Headquarters for deployment in FALD to support Iraq operations. Eight of these were lost in transit at the airport in New York and an (iii)

insurance claim was lodged to recover the loss.

10. The Auditor, however, noted that no action had been taken to transfer the 100 excess printers that came with the computers.

Recommendation:

FALD should:

- (i) collect and credit UNOHCI for the remaining balances arising from equipment transfers to other missions (AP1998/17/01);
- (ii) take appropriate follow-up action on the claim for lost computers (AP1998/17/02); and
- (iii) take follow-up action to dispose of the remaining printers (AP1998/17/03).

Vehicles

- 11. DHA purchased a total of 76 vehicles through the Procurement and Transport Division at Headquarters. The vehicles, costing a total of \$1,381,000, were received by UNOHCI in July and August 1997 and distributed to the various units. In audit observation HCI97-7 dated 23 October 1997, the auditor pointed out that as of 30 September 1997, the mission appeared to have vehicles in excess of its requirements. He recommended that a realistic assessment of the mission's requirements be made and that vehicles found in excess of the mission's requirements be transferred to other UN Agencies involved with the implementation of SCR 986. In his reply dated 4 December 1997, the CAO stated that as soon as the security situation stabilized, UNOHCI would determine the required number of vehicles for its operation and transport pool, and transfer excess units, if any, at original cost to other UN agencies, which required additional vehicles.
- 12. The audit observation also highlighted inadequacies in the maintenance and review of daily log sheets, which were required to be maintained by all staff members authorized to drive UNOHCI vehicles. The log sheets were also used for calculating liberty mileage charges recoverable from the staff members. It was recommended that UNOHCI should ensure that vehicle users submit duly completed log sheets on a timely basis. The CAO stated that instructions had been issued to the Chief Transport Officer accordingly.
- 13. During a follow-up review of the implementation of the audit recommendations, the auditor found that with the stabilization of the security situation, staff members of the mission were relocated to designated hotels. However, an assessment of the continued need for wardens

to be provided with vehicles was not undertaken. In addition, the inadequacies in the maintenance of log sheets noted in the earlier observation continued to persist. These findings were forwarded to the CAO through audit observation HCI98-7 dated 21 May 1998.

Recommendation:

FALD should request the UNOHCI administration to:

- (i) reassess the mission's vehicle requirements and transfer excess vehicles, if any, to other UN agencies which are involved in the 986 program and have a need for additional vehicles (AP1998/17/04); and
- (ii) ensure that those responsible for the vehicles submit proper log sheets regularly and promptly (AP1998/17/05).

B. Purchase of office furniture -irregularities

- 14. UNOHCI procured office furniture through two purchase orders issued to a vendor in Amman, Jordan for a total of \$42,518. In audit observation HCI97-2 dated 11 June 1997, the Auditor recommended that UNOHCI constitute a Board of Inquiry to investigate the following irregularities noted in respect of the two purchase orders:
 - (i) the vendor in Amman had neither submitted a bid nor received the two purchase orders;
 - (ii) the purchases had actually been made from a local vendor in contravention of sanctions imposed by UN Security Council Resolution 661(1990);
 - (iii) the purchase was deliberately split into two orders to circumvent delegated financial limits;
 - (iv) invitations to bid and evaluation of bids were not conducted in accordance with established procedures; and
 - (v) the price paid appeared to be exorbitant.
- 15. The administration admitted that the local vendor had deliberately used the name of the Amman (Jordan) vendor without his knowledge and that the bid was obtained by former UNAUB staff during their survey of the local furniture market at the beginning of UNOHCI's operations. A Board of Inquiry, constituted on 23 July 1997 to investigate the irregularities, submitted its report in November 1997. So far as we are aware, no action has resulted from the report. In the light of the serious audit findings, FALD should review the Board's findings and

ensure that appropriate follow-up action is taken.

Recommendation:

FALD should complete the review of the Board of Inquiry's findings as a matter of urgency, take appropriate follow up action and inform OIOS of the action taken (AP1998/17/6).

C. Communications - incorrect charging of expenses

ITSD charges

- 16. UNOHCI is backstopped and administered by FALD. Like all other missions, UNOHCI was charged its share of the communication transponder costs through FALD. Since UNOHCI had paid its portion of these charges for 1997, like other missions, it should not be required to pay any additional charges for the use of the UN worldwide telecommunications network. However, on the advice of the Information Technology Services Division (ITSD), OPPBA charged UNOHCI an additional \$228,687 and \$8,206 for the usage of the UN voice and fax network respectively during 1997. OPPBA justified these charges on the grounds that: (a) UNOHCI was established to support the humanitarian activities in Iraq under the provisions of SCR 986, an operation financed from the proceeds of Iraqi oil sales; and (b) as UNOHCI was neither a regular UN operation nor a peacekeeping operation, the cost sharing procedures for telecommunication charges relating to peacekeeping missions should not be applied to UNOHCI.
- 17. In audit observation HCI98/6, the auditor recommended that UNOHCI be refunded the charges amounting to \$236,893 as the reasons advanced by OPPBA were not equitable and UNOHCI had paid its share of the costs as assessed by FALD. The auditor also recommended that the policy on the use of the telecommunication network be reviewed and clarified so that the costs are apportioned equitably among all users. In a response dated 28 May 1998, ITSD argued that it could not cancel the charges as it was levied in accordance with guidelines issued by OPPBA. ITSD further stated that unless otherwise instructed by OPPBA, the OPPBA guidelines would continue to be implemented.
- 18. The Director of the Accounts Division, OPPBA in a reply dated 27 July 1998 pointed out that the Accounts Division was not responsible for making arrangements on services provided by ITSD and that issues relating to costs should be resolved between the offices concerned. He also stated that it was necessary to review the matter in the light of the costs of telecommunications equipment provided by UNOHCI and possibly similar arrangements that may exist for some peacekeeping missions.

Recommendation:

FALD should expeditiously initiate a joint review with OPPBA and ITSD with respect to transponder costs and other UN worldwide network charges imposed upon UNOHCI and establish a consistent and equitable basis for the apportionment of the costs and ensure that all charges for prior periods are adjusted accordingly (AP1998/17/7).

Lease of digital lines

19. In April 1997, without consultation with UNOHCI, FALD leased a digital communication line connecting UNLB/Brindisi to UNOG/Geneva through UNOHCI. The cost of the lease amounting to about \$30,000 per six months was charged to UNOHCI's account. The Auditor, noting that the leased line was not an immediate operational requirement of UNOHCI, recommended that FALD cancel the lease. FALD, however, felt that UNOHCI would benefit from the alternate route provided by the leased line and that consideration be given to the needs of the European-based UN agencies represented in Iraq. The Auditor then recommended that the cost of the leased line be shared equally among the various users and not charged entirely to UNOHCI. However, no action was taken in the matter.

Recommendation

FALD should apportion the charges for the digital lines among all the users and credit UNOHCI the amounts recovered (AP1998/17/8).

D. Personnel - localization of general service posts

20. General Assembly resolution 52/8 requested the Secretary-General to take the necessary steps to employ locally recruited General Service staff against mission(s) posts commensurate with the operational requirements of such posts. This request was made so as to reduce the cost of employing internationally recruited General Service staff in field missions. Pursuant to the GA resolution, in January 1998, FALD requested UNOHCI to review its requirements and indicate in its budget estimate report for the period 1 July 1998 to 30 June 1999 whether it was possible to replace the posts designed for international GS staff members with locally-recruited staff members. In response, UNOHCI proposed the localization of 17 General Service posts and provided a time frame for its implementation. UNOCHI indicated that the potential savings

would be \$67,000 per post per annum.

- 21. Seventeen posts were identified for localization by 1 July 1998. However, as at 24 July 1998, only eight posts had been localized. In addition, another two posts not identified previously were also localized. In audit observation HCI98-10 dated 24 July 1998, the Auditor recommended that the implementation of the General Assembly resolution be carried out without any further delay and that further efforts be made to identify other posts for future localization.
- 22. The CAO in his reply dated 7 August 1998 attributed the unexpected delays to the extensive training and hand over periods required for localization of the General Service posts. He further stated that the administration was proceeding to implement the initial proposal for localization with amendments, and that, subject to the filling of some essential professional staff in finance and personnel, the mission expected to have the posts and a few additional ones localized by the end of 1998.

Recommendation

FALD should monitor the implementation of General Assembly Resolution 52/8 on the localization of General Service staff in UNOHCI and all other field peacekeeping missions so as to maximize cost savings (AP1998/17/9).

III. AUDIT RECOMMENDATIONS ACCEPTED FOR IMPLEMENTATION BY UNOHCI

A. Procurement

Construction and building repair works

- 23. A consultant who was engaged to prepare drawings and bills of quantities for construction work was also assigned to undertake technical evaluation of bids as well as supervise the work and certify its satisfactory completion. The consultant was paid fees equivalent to 15 percent of the contract value compared with the standard local practice of 5 per cent. On the auditor's recommendation that incompatible functions be segregated, a Buildings Management Assistant was recruited to supervise construction, maintenance and other related activities.
- 24. Quotations for construction works were received in both local currency and US dollars. As there were different rates of exchange prevailing at the time, the evaluation procedures did not ensure that the lowest quotation was always approved. Upon the submission of audit observations on the matter, management issued instructions that all quotations for local

procurement should be in US dollars only.

Roster of vendors

25. Until July 1998, UNOHCI did not maintain a proper register of vendors. The vendors supplying goods and services were also not properly evaluated in accordance with the Procurement Manual. These weaknesses resulted in UNOHCI soliciting general traders for such specialized items as medicines, medical equipment, stationery and EDP supplies, videocassettes, communication equipment, and lubricants. Consequently, the prices paid were found to be high. Management has stated that the vendor register will be updated.

B. Communications - control of private calls

26. There was no proper system for keeping track of the use of INMARSAT phone facilities. Staff is required to pay for any private calls made through INMARSAT terminals. The CAO agreed with the auditor's findings and introduced PIN numbers for identifying and controlling personal calls.

C. Personnel issues

Job descriptions of staff members

27. In May 1997, the auditor had recommended that proper job descriptions be established for all international staff assigned to UNOHCI so as to ensure consistency between actual duties and responsibilities performed and the job descriptions. The CAO agreed and the recommendation was implemented by 26 October 1997.

Occupational Recuperation Break (ORB)

28. In observation HCI97-5 dated 1 October 1997 the auditor pointed out that the system of reporting ORB was deficient. In a number of cases ORB was reported as taken when in fact, none had been taken. This arose because changes to the ORB/leave requests were not reported promptly to the Finance Section, resulting in double MSA payments. The Administration promptly acted upon the Auditor's recommendation and duly amended the leave request form to incorporate all the required details for reporting and control purposes.

Procurement trips for UNGCI guards

29. For every three completed months of service, guards of the UN Guard Contingent in Iraq (UNGCI) are entitled to a procurement trip of up to four days with payment of full DSA to a place outside the mission area. It was noted that some guards were granted these trips before the completion of three months' service. The auditor's recommendations that the procurement trips be granted only after completion of the full three months service and that periods spent outside the mission area be excluded for purposes of calculating further procurement trip entitlement was accepted by the CAO for implementation.

Irregular recruitment of local staff

30. The Personnel Section recruited two clerks at the G-5 level from a roster of candidates, without circulating a vacancy announcement and one of those recruited had a relationship with the Chief Civilian Personnel Officer (CCPO). The auditor raised an observation on the apparent 'conflict of interest' in the recruitment of the clerk. The CAO agreed with the audit finding and accordingly took action not to renew the special service contract of the individual concerned. At that time, the CCPO had already been separated from service on another disciplinary matter.

D. Transport

Payment of insurance premium on non-operational vehicles and insurance claims

31. Although all UN vehicles are insured under the Worldwide Vehicle Insurance Programme, UNOHCI had to obtain third party liability insurance coverage from the Iraqi National Insurance Company, as required by local laws. UNOHCI paid premiums totaling \$55,349 in 1997 for the third party liability insurance coverage. It was observed that twenty 'non-operational' vehicles, including eleven units that had been submitted for write-off action, were included in the 1997-1998 insurance scheme at a cost of \$5,350. Further, the auditor noted that since the National Insurance Company of Iraq was slow in settling compensation claims to third parties amounting to \$9,500, UNOHCI was forced to settle these claims directly with the claimants. In view of the fact that the same vehicles were covered under the Organization's own Worldwide Vehicle Insurance Programme, the auditor recommended that UNOHCI: (a) take action to seek early settlement of pending claims with the National Insurance Company; and (b) explore the possibility of making claims against the Worldwide Insurance Scheme. The CAO agreed to take the necessary action to implement the recommendation.

Irregular write-off of vehicles

32. Twenty-nine vehicles with inventory value totaling \$601,210 were written off and then cannibalized for spare parts in accordance with UNOHCI policy. The auditor highlighted discrepancies in the vehicles' mileage reported to the Property Survey Board and the actual odometer readings and recommended that UNOHCI investigate and reassess the operational and roadworthiness of the vehicles. The CAO explained that write-off action had been initiated by staff members who had since been reassigned outside the mission area and that staff members who took over the functions were not in a position to explain the irregularities noted. The auditor also recommended that a committee be formed to dispose of 17 additional vehicles due for write-off action on 'as is where is' basis in June 1998. The Administration agreed with the recommendation and issued guidelines for advertising the vehicles for sale to interested NGOs in north Iraq.

Inadequate internal controls in spare parts management

33. An examination of the inventory of vehicle parts revealed: (a) discrepancies in quantities of spare part items in stock; (b) inadequate documentation for the issue of spare parts worth

\$71,738, purchased for the non operational Defender and Discovery vehicles; and c) periodic physical verifications were not undertaken by the responsible transport officers. As a result of the review, the auditor recommended that the Transport Service Section undertakes a physical verification of its spare parts store and up-date its inventory records accordingly and provides adequate explanations for the discrepancies noted in the audit review. The auditor has also recommended that all spare parts of 'non 986 origin,' which were no longer required, be transferred to other missions. The CAO has agreed to take remedial action.

E. Finance

Accounts Receivable/Unliquidated Obligations

34. As at 8 January 1998 about \$43,701 remained to be recovered from staff members who had already left the mission. The CAO has agreed to contact the responsible officers at UN Headquarters to help recover balances from staff members who had left the mission. In addition, UNOHCI's trial balance reflected outstanding obligations of \$328,287 as at 30 November 1997. The outstanding obligations were not properly monitored, and where appropriate, liquidated by certifying officers and the Finance Section. The CAO agreed to take corrective action.

F. Inventory management

986/ NON 986 Inventory

35. A review of the inventory of physical assets in May 1998 revealed that 185 items costing in excess of \$100,994 could not be properly accounted for. In addition, assets worth about \$485,692 were being used by various agencies for the Humanitarian Programme. It was also noted that particulars of assets, such as serial numbers, acquisition cost and location were not recorded properly in the inventory records. The auditor recommended that: (i) physical checks be conducted as a matter of urgency to verify and locate all missing assets; and (ii) calculate the depreciation of assets chargeable to the Iraq Escrow Account for the non-986 equipment used by the Humanitarian Programme. The CAO has agreed with the recommendations and had already taken various measures to implement the recommendations.

IV. ACKNOWLEDGEMENT

36. We would like to express our appreciation for the assistance and co-operation extended to the Resident Auditor by the management and staff of UNOHCI.

Esther Stern, Director

Audit and Management Consulting Division Office of Internal Oversight Services

cc: UN Board of Auditors